

ORIGINAL



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MEMORANDUM

RECEIVED

2011 FEB 16 P 2:19

TO: Docket Control

FROM: Steven M. Olea  
Director  
Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: February 16, 2011

RE: STAFF REPORT FOR ABRA WATER COMPANY INC.'S APPLICATION  
FOR AUTHORITY TO INCUR LONG-TERM DEBT FOR THE PURCHASE  
OF ARSENIC MEDIA (DOCKET NO. W-01782A-10-0465)

Attached is the Staff Report for the Company's application for authority to incur long-term debt. Staff recommends conditional approval.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before February 28, 2011.

SO: JCM:kdh

Originator: Juan C. Manrique

Attachment: Original and thirteen copies

Arizona Corporation Commission

DOCKETED

FEB 16 2011

DOCKETED BY	
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Service List for: Abra Water Company Inc.  
Docket No. W-01782A-10-0465

Mr. Kevan Larson, President  
Abra Water Co., Inc.  
Post Office Box 385  
Paulden, Arizona 86334

**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**


**ABRA WATER COMPANY INC.  
DOCKET NO. W-01782A-10-0465**


**APPLICATION TO INCUR LONG-TERM DEBT**

**FEBRUARY 16, 2011**

## STAFF ACKNOWLEDGMENT

The Staff Report for Company, Docket No. W-01782A-10-0465 is the responsibility of the Staff members listed below. Juan C. Manrique is responsible for the financial analysis. Jian Liu is responsible for the engineering review.

  
\_\_\_\_\_  
JUAN C. MANRIQUE  
PUBLIC UTILITIES ANALYST I

  
\_\_\_\_\_  
JIAN LIU  
UTILITIES ENGINEER – WATER/WASTEWATER

**EXECUTIVE SUMMARY  
ABRA WATER COMPANY INC.  
DOCKET NO. W-01782A-10-0465**

On November 15, 2010, Abra Water Company, Inc. ("Abra" or "Company"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to incur long-term debt from JPMorgan Chase Bank ("Chase") and National Bank of Arizona ("National").

The Company is an Arizona for-profit, Class C public service corporation providing water service to approximately 630 customers in and around the city of Paulden, County of Yavapai, Arizona. The Company seeks to borrow \$75,000 to purchase new arsenic media. The Company anticipates borrowing these funds at a rate not to exceed 6.0 percent per annum.

Abra currently has a rate case pending before the Commission under Docket No. W-01782A-10-0224.

As of December 31, 2009, Abra's capital structure consisted of 2.5 percent short-term debt, 55.4 percent long-term debt, and 42.1 percent equity. Staff calculated a pro forma capital structure reflecting Staff's revenue requirement and operating income recommendations in the pending rate case as well as issuance of a \$75,000 3-year amortizing loan at 6.0 percent per annum, and it is composed of 5.6 percent short-term debt, 55.8 percent long-term debt and 38.6 percent equity. Staff also calculated pro forma debt service coverage ratio ("DSC") of 1.49. The DSC results show that cash flow from operations is sufficient to cover all obligations. The Company does not have sufficient cash flow with its existing rates to service the proposed debt.

Staff concludes that the Company's proposed capital projects are appropriate and that the related cost estimates are reasonable.

Staff concludes that issuance of the proposed debt financing for the purposes stated in the application is within Abra's corporate powers, is compatible with the public interest, and is consistent with sound financial practices subject to the condition that the Company is authorized sufficient revenue in its pending rate case to meet its debt service and the associated loan covenants.

Staff recommends authorization to incur a 3-year amortizing loan in an amount not to exceed \$75,000 at an interest rate not to exceed 6.0 percent per annum subject to the condition that the Commission authorizes sufficient revenue in the Company's pending rate case to meet its debt service and the associated loan covenants.

Staff further recommends that any authorization to incur debt granted in this proceeding terminate on December 31, 2012.

Staff further recommends authorizing Abra to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that Abra file with Docket Control, as a compliance item in this matter, copies of the loan documents within 60 days of the execution of any financing transaction authorized herein.

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## **INTRODUCTION**

On November 15, 2010, Abra Water Company, Inc. ("Abra" or "Company"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to incur long-term debt from JPMorgan Chase Bank ("Chase") and National Bank of Arizona ("National").

## **PUBLIC NOTICE**

On November 15, 2010, included in this application, the Company filed an affidavit of publication verifying public notice of its financing application. The Company published notice of its financing application in the *The Verde Independent/Bugle*, a three times per week newspaper of general circulation in the City of Cottonwood, County of Yavapai, Arizona, on September 26, 2010. The affidavit of publication is attached along with a copy of the Notice.

## **BACKGROUND**

The Company is an Arizona for-profit, Class C public service corporation providing water service to approximately 630 customers in and around the city of Paulden, County of Yavapai, Arizona.

Abra currently has a rate case pending before the Commission.<sup>1</sup>

## **COMPLIANCE**

A check of the Compliance Database indicates that there are currently no delinquencies for Abra Water Company.

## **PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING**

The Company seeks to borrow \$75,000 to purchase new arsenic media. The Company anticipates borrowing these funds at a rate not to exceed 6.0 percent per annum.

## **FINANCIAL ANALYSIS**

Staff's analysis is illustrated on Schedule JCM-1. Column [A] reflects historical financial information for the year ended December 31, 2009, provided by the Company in its pending rate application. Column [B] presents pro forma financial information that modifies Column [A] to reflect Staff's revenue requirement and operating income recommendations in the pending rate case as well as issuance of a \$75,000 3-year amortizing loan at 6.0 percent per annum.

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<sup>1</sup> Docket No. W-01782A-10-0224



### DSC

DSC represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

Schedule JCM-1, Column [A] shows that for the year ended December 31, 2009, the Company's DSC was 0.22. The pro forma DSC for the Company under the scenario described above for Column [B] is 1.49.

### Capital Structure

At December 31, 2009, the Company's capital structure consisted of 2.5 percent short-term debt, 55.4 percent long-term debt, and 42.1 percent equity (Schedule JCM-1, Column [A], lines 19-25). Staff calculated a pro forma capital structure reflecting Staff's revenue requirement and operating income recommendations in the pending rate case and issuance of a \$75,000 3-year amortizing loan at 6.0 percent per annum, and it is composed of 5.6 percent short-term debt, 55.8 percent long-term debt and 38.6 percent equity (Schedule JCM-1, Column [B], lines 19-25).

### Capital Structure inclusive of AIAC and CIAC

As of December 31, 2009, the Company's capital structure, inclusive of Advances-In-Aid-of-Construction ("AIAC") and Net Contributions-In-Aid-of-Construction ("CIAC")<sup>2</sup> consisted of 1.5 percent short-term debt, 34.0 percent long-term debt, 25.9 percent equity, 27.3 percent AIAC and 11.3 percent CIAC (Schedule JCM-1, Column [A], lines 30-40).

## **CONCLUSION AND RECOMMENDATIONS**

Staff concludes that the Company's proposed capital projects are appropriate and that the related cost estimates are reasonable.

Staff concludes that issuance of the proposed debt financing for the purposes stated in the application is within Abra's corporate powers, is compatible with the public interest, and is consistent with sound financial practices subject to the condition that the Company is authorized sufficient revenue in its pending rate case to meet its debt service and the associated loan covenants.

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<sup>2</sup> Contributions in Aid of Construction less Accumulated Amortization of Contributions in Aid of Construction.

Staff recommends authorization to incur a 3-year amortizing loan in an amount not to exceed \$75,000 at an interest rate not to exceed 6.0 percent per annum subject to the condition that the Commission authorizes sufficient revenue in the Company's pending rate case to meet its debt service and the associated loan covenants.

Staff further recommends that any authorization to incur debt granted in this proceeding terminate on December 31, 2012.

Staff further recommends authorizing Abra to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that Abra file with Docket Control, as a compliance item in this matter, copies of the loan documents within 60 days of the execution of any financing transaction authorized herein.

**FINANCIAL ANALYSIS**

	<u>[A]<sup>1</sup></u> <u>12/31/2009</u>		<u>[B]<sup>2</sup></u> <u>Pro forma</u>	
1 Operating Income	-\$30,529		\$34,971	
2 Depreciation & Amort.	\$36,107		\$52,776	
3 Income Tax Expense	\$0		\$5,675	
4				
5 Interest Expense	\$9,335		\$23,089	
6 Repayment of Principal	\$16,210		\$39,730	
7				
8				
9				
10				
11				
12 <b>DSC</b>				
13 [1+2+3] ÷ [5+6]	0.22		1.49	
14				
15				
16				
17 <b>Capital Structure</b>				
18				
19 Short-term Debt	\$16,210	2.5%	\$39,729	5.6%
20				
21 Long-term Debt	\$358,627	55.4%	\$395,442	55.8%
22				
23 Common Equity	\$273,045	42.1%	\$273,045	38.6%
24				
25 Total Capital	\$647,882	100.0%	\$708,217	100.0%
26				
27				
28 <b>Capital Structure (inclusive of AIAC and Net CIAC)</b>				
29				
30 Short-term Debt	\$16,210	1.5%	\$39,729	3.6%
31				
32 Long-term Debt	\$358,627	34.0%	\$395,442	35.4%
33				
34 Common Equity	\$273,045	25.9%	\$273,045	24.5%
35				
36 Advances in Aid of Construction ("AIAC")	\$288,675	27.3%	\$288,675	25.9%
37				
38 Contributions in Aid of Construction ("CIAC") <sup>3</sup>	\$119,342	11.3%	\$119,342	10.7%
39				
40 Total Capital (Inclusive of AIAC and CIAC)	\$1,055,899	100.0%	\$1,116,234	100.0%
41				
42				
43 <b>AIAC and CIAC Funding Ratio <sup>4</sup></b>	38.6%		36.6%	
44 (36+38)/(40)				

<sup>1</sup> Column [A] is based on information in the Company's pending rate application (W-01784A-10-0224) for the year ended December 31, 2009.

<sup>2</sup> Column [B] is Column [A] modified to reflect Staff's recommended revenue requirement in Abra's pending rate case and a \$75,000 3-year amortizing loan at 6 percent.

<sup>3</sup> Net CIAC balance (i.e., less: amortization of contributions).

<sup>4</sup> Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC.

**Publication and notices to customers**

Affidavit of Publication

Affidavit of Mailing and Publication.

# AFFIDAVIT OF PUBLICATION

STATE OF ARIZONA     )  
County of Yavapai     ) ss.

Marcia Molzan, being first duly sworn on her oath says:  
That she is the **Legal Advertising Assistant** of VERDE VALLEY  
NEWSPAPERS, INC., an Arizona corporation, which owns and  
publishes the **Verde Independent/Bugle**, a three times a week newspaper  
published in the City of Cottonwood, County of Yavapai that the notice  
attached hereto, namely,

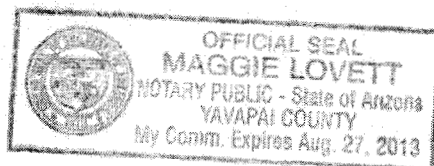
## **PUBLIC NOTICE** **APPLICATION FOR AN ORDER AUTHORIZING THE ISSUANCE** **OF Seventy five thousand dollars (\$75,000.00)**

has, to the personal knowledge of affidavit, been published in the news  
paper aforesaid, according to law, on 26 day of August, 2010 to 26 day  
of September, 2010 both inclusive without change, interruption or  
omission, amounting in all 1 insertions, made on the following dates:  
September 26, 2010

Marcia Molzan  
Dated this 30<sup>th</sup> day of September, 2010

By: Maggie Lovett  
Notary Public

My commission expires:

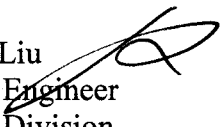


PUBLIC NOTICE OF AN APPLICATION  
FOR AN ORDER AUTHORIZING THE  
ISSUANCE OF Seventy five thousand  
dollars (\$75,000.00) BY Agua Water Com-  
pany incorporated, Agua Water Company  
Incorporated filed an Application with the  
Arizona Corporation Commission ("Com-  
mission") for an order authorizing Appli-  
cant to issue available for inspection dur-  
ing regular business hours at the office of  
the Commission in Phoenix, Arizona, and  
the Company's offices in Paulden, Arizo-  
na. Intervention in the Commission's pro-  
ceedings on the application shall be per-  
mitted to any person entitled by law to in-  
tervene and having a direct substantial in-  
terest in this matter. Persons desiring to  
intervene must file a Motion to Intervene  
with the Commission which must be  
served upon applicant and which "minimum"  
shall contain the following informa-  
tion:  
1. The name and address and telephone  
number of the proposed intervenor and of  
any person upon whom service of docu-  
ments is to be made if different than the  
intervenor.  
2. A short statement of the proposed in-  
tervenor's interest in the proceeding.  
3. Whether the proposed intervenor de-  
sires a formal evidentiary hearing on the  
application and the reasons for such a  
hearing.  
4. A statement certifying that a copy of  
the Motion to Intervene has been mailed  
to Applicant. The granting of Motions to  
Intervene shall be governed by A.R.C.  
R14-3-105, except that all Motions to In-  
tervene must be filed on or before the  
15th day after this notice.  
TTV Publish 8/26/2010

## MEMORANDUM

DATE: January 27, 2011

TO: Juan Manrique  
Public Utilities Analyst I  
Utilities Division

FROM: Jian W. Liu   
Utilities Engineer  
Utilities Division

RE: Abra Water Company, Inc.  
Docket No. W-01782A-10-0465 (Financing)

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### **Introduction**

Abra Water Company, Inc. ("Abra" or the "Company") is providing water service within portions of Yavapai County, Arizona. Abra had 636 customers in December 2009, and is located in Paulden which is approximately 25 miles north of the Town of Prescott on State Highway 89.

### **Financing Application**

On November 15, 2010, the Company filed an application with the Arizona Corporation Commission ("ACC") requesting authority to borrow \$75,000 from the Chase Bank and National Bank. If the financing is approved, the loan will be used to purchase arsenic media for the existing filtration system.

### **Cost Analysis**

The Company submitted two bids to remove 220 cubic foot of spent media, dispose of spent media, inspect media tank and install 220 cubic foot of new media. Quotes to perform the required work were obtained from several vendors. The quotes obtained ranged in price from \$69,300.00 to \$73,670.80.

Staff concludes that the proposed arsenic media expenditure is necessary and appropriate and the estimated costs are reasonable.

### **Arizona Department of Environmental Quality Compliance**

Arizona Department of Environmental Quality ("ADEQ") regulates the Company's Water System under ADEQ Public Water System ("PWS") No. 13-001. Based on compliance information submitted by the Company, the system has no deficiencies and ADEQ has

determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4. (ADEQ report dated March 19, 2010).

**ACC Compliance Status**

A check with the Utilities Division Compliance database showed there were no delinquent compliance items for the Company. (Compliance Email dated October 20, 2010).

**Arizona Department of Water Resources Compliance ("ADWR") Status**

The Company is not located in any Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements. ADWR reported that it has determined that Abra is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR report dated June 23, 2010).